

1 THE INCA PRINCESS

2 Rarely are appraisals conducted because someone wants to know the value of something.
3 Appraisals, that people are willing to pay for, are usually intended to influence someone else.
4 The opinion of a disinterested expert is called on to persuade a judge, a jury, a tax collector,
5 insurance adjuster, or banker. Often there is no real dispute and the appraisal is just a formality.
6 Sometimes the stakes are much more than money. This story relates one that may have had some
7 minor influence on history.

8 My wife, Deb, and I were enjoying a quiet Saturday morning at home in our small Miami
9 Lakes townhouse when the doorbell clanged and she got up to answer it.

10 "There's a guy here who wants to talk to you about appraising."

11 "Say what?"

12 "He's Latin, in a suit, and looks harmless enough."

13 "Invite him in, and keep him occupied while I put my pants on."

14 Professor Ferreira introduced himself, in excellent but very formal English, "I am from
15 National University of Engineering in Lima, and am here in Miami to find someone to teach a
16 course in appraising."

17 "How did you come to me?"

18 "My daughter in Sacramento was a neighbor of yours. She gave me your name as a
19 possible engineering contact in Miami. I also saw your advertisement in the telephone directory
20 as an appraiser."

21 I had no recollection of his daughter, "What do you need?"

22 "I have to arrange a class in appraising. I can't find anyone qualified to teach it in Peru."

23 "What kind of property?"

47 Sunday I worked out a budget and lined up Victor Gallo as my translator/assistant in case
48 the job actually materialized. Victor was an Argentine born, now retired, civil engineer. He was
49 well known in Miami's bicycling community as an endurance cyclist, and held several North
50 American records. Our history together was limited to bicycling. I was a newbie to the sport and
51 he was the master. Neither of us had any experience teaching. Victor had no experience
52 appraising. My appraisal experience was mostly furniture and bric-a-brac. Medical and banking
53 equipment were incidental sub-specialties. I figured Victor's civil engineering background
54 would be helpful. The amount agreed to by Professor Ferreira, and the opportunity for an exotic
55 lark, clinched the deal for Victor and me. By Sunday afternoon I had a check for my retainer.

56 Victor and I didn't yet know that Peru was in the process of privatizing its public utilities,
57 and as a result of the recent sale of its national telephone company had gotten into trouble with
58 the indigenous Indians. To express their outrage over the sale of the phone company — at what
59 the Indians felt was much less than its real value — the guerilla group, MRTA, had taken
60 hostages and occupied the Japanese embassy. The closing on a sale of SEDAPAL, Lima's water
61 and sewerage company was imminent. A complex negotiation between the Peruvian government
62 and the guerillas required an American expert be called in to help determine a fair price for the
63 water company. None of this was revealed in my discussions with Professor Ferreira. The
64 assignment was to be a far cry from appraising antiques on Miami Beach.

65 I studied Environmental Engineering in graduate school with a focus on water resources
66 management, but my relevant experience was limited to an undergraduate stint as a co-op
67 engineering student with the Tennessee Valley Authority, and a job with the California Air
68 Resources Board administering research projects. Enough to talk a good game, but not much
69 practical experience applicable to the valuation of a public utility.

139 student was being offered up as a sacrifice for a theme park just as an *Inca Princess* might be
140 stretched over a sacrificial altars to assure the success of a crop.

141 * * *

142 The following day Architect Benitez and Professor Ferreira took Victor and me on a tour
143 of the Port of Callao. Highlights included the modern school that port employees brought their
144 children to when they went to work. Each child had his own PC in a time when it was still rare
145 for professionals to have them. I was amazed at how progressive the arrangements were for the
146 workers. Or was this just eyewash for the benefit of visiting dignitaries?

147 The purpose of the tour did not become apparent until we got to the old fortress currently
148 being used as a prison. In the back of my mind was the question as to where was appraiser jail,
149 the timing of the visit, and what kind of consequences there might be to Victor's and my
150 adventure? Rather than my paranoid musings, Architect Benitez — once again looking to turn a
151 sow's ear into a silk purse — wanted our opinion on converting the prison into an amusement
152 park. The Ferrari powered Toyota metaphor and the Inca Princess's dilemma were connected.
153 The Toyota was the jail, and the Inca princess was being asked to appraise it as a theme park.

154 * * *

155 Friday Professor Ferreira asked if I could do a "Seminario" the next Wednesday evening
156 instead of the regular class. In my ignorance I assumed *seminario* was simply Spanish for
157 seminar and it was going to be an interactive lecture for a small group that couldn't make the
158 class. I was to find out just how bad my Spanish was.

159 * * *

160 That weekend Victor and I played tourist. We headed to Inca ruins south of Lima and
161 took a tour boat to the Ballestas, isolated islands off the coast of Peru reminiscent of the

162 Galapagos. After the visit to the Ballestas we had dinner with the tour group on the veranda of a
163 hotel on the main drag of the coastal city of Paracas. In the middle of dinner, directly in front of
164 us, a motorcyclist riding on the wrong side of the street rode head-on into a car. Victor and I
165 bolted down to the street. The motorcyclist lay unconscious in the middle of the road with a
166 fractured femur poking out through his thigh. I stopped traffic while Victor tried to administer
167 first aid and prevent further injury until the ambulance that the restaurant summoned could come.
168 A crowd gathered and a group of men commandeered a car to take the unconscious victim to the
169 hospital. An argument ensued when Victor tried to prevent their moving him before the
170 ambulance came. The mood of the crowd turned ugly, and I had to drag Victor away from the
171 scene to prevent violence. The crowd shoved the now twice victimized motorcyclist into the
172 commandeered car just as the ambulance arrived. I felt sorry for the motorcyclist, but relieved
173 that Victor and I didn't have to deal with the angry crowd. Was this yet to be another
174 foreshadowing metaphor?

175 * * *

176 Monday, on our return to the University for classes, I noticed several posters advertising
177 the "Semanario." To my surprise tickets were \$40 to \$90. When Victor and I got to the
178 auditorium for the 3 PM start it was standing room only with around a couple of hundred in
179 attendance. Amazed by the turnout, I summarized the material we covered in the classes with
180 Victor translating, and took questions till about 10 PM. We were both exhausted. Even if many
181 of the tickets were comped as Architect Benitez explained — without an accounting — they still

SEMINARIO INTERNACIONAL

ORGANIZAN:

UNIVERSIDAD NACIONAL DE INGENIERIA
POSTGRADO EN VALUACIONES

Sede:

Colegio de Ingenieros del Perú Av. Arequipa

TEMA:

VALUACIÓN DE MAQUINARIA Y EQUIPOS

Expositor: Ing. Harris J. Samuels, ASA

Miembro de la Sociedad Americana de Valuadores

FECHA : 05 de Marzo de 1997
HORA : 15.00 a 21.00 horas.
LUGAR : Colegio de Ingenieros
Av. Arequipa 4947 - Miraflores
Oficina 102

INSCRIPCION: Ingenieros y Arquitectos colegiados US\$ 80.00
Otros Profesionales US\$ 90.00
Estudiantes US\$ 40.00
(Incluido IGV)

Se entregarán separatas y certificado. Habrá traducción.

183 made out pretty good. Victor and I never saw any extra money for the effort.

184 * * *

185 The next day class was canceled. Victor and I were summoned to a meeting at the water
186 company, SEDAPAL. It was at this point that the real purpose of our mission officially revealed
187 itself. What we had pieced together from discussions with our students and reading the
188 newspapers was true. We were there to value the water company in an attempt to assure the
189 MRTA guerillas that it was not being sold cheap to insiders. The meeting was to see how we
190 proposed the appraisal be done.

191 I started my unrehearsed presentation just as I had the class and the *semanario*, with
192 Victor translating as I went along.

193 “There are three arrows in the appraiser’s quiver: the *Market Approach*,
194 the *Income Approach*, and the *Cost Approach*.

195 The *Market Approach* is accomplished by finding sales of comparable
196 property and using the prices realized as the measure of value of the subject being
197 appraised. In the case of the water company there are no comparable sales and the
198 *Market Approach* is not available to us.

199 The *Income Approach* is simply determining the present value of the
200 anticipated income from the property. It is easy to compute, requires no
201 knowledge of the physical attributes of the property being appraised, but does
202 require a forecast of the income. A public utility is usually run for the benefit of
203 the public and without regard to generating income. Unless you know what the
204 income will be, once in private hands, you have no basis to use the *Income*
205 *Approach*.

206 That leaves the *Cost Approach*. In the *Cost Approach* an estimate of the
207 cost to replace the system with a new one is made. The cost “new” is adjusted for
208 obsolescence using the ratio of the remaining life of the system to its total useful
209 life. That ratio is expressed as percent good, %Good. When the %Good is

210 applied to the cost new it yields the current value of the used machinery and
211 equipment. A system like yours is a mix of components put into use over
212 hundreds of years. I understand there are drain pipes still in use that were put
213 down by the Inca. The replacement cost new of the system will be relatively easy
214 to compute, the %Good will be very difficult. Much of the system is
215 underground, records may not be available or good, and a physical inspection of
216 randomly selected sites will be required to validate records and/or determine
217 condition. The higher the number of randomly selected sites the greater the
218 precision of the appraisal, and hundreds may be required.”

219 The first question was, “How accurate will your appraisal be?”

220 “The accuracy of the appraisal will be a function of how good your records are, and how
221 many randomly selected sites are inspected.” I added hopefully, “Depending on the time and
222 budget you might expect about plus or minus 20%.”

223 After a few moments digesting the margin of error the senior official at the table stated
224 unequivocally, “We would like to use the *Income Approach*. It is the fastest way and it gives us
225 the accuracy we require.”

226 “What are you using for the income?”

227 “Our accounting includes income from SEDAPAL that goes back to the government.”

228 “That is well and good, but how do you know what the income will be once you sell the
229 water company? Is it your intent to regulate its profits? The water company is a monopoly; what
230 is to prevent the new owner simply raising the cost of its services?”

231 “In the USA you are deregulating your utilities. Why should we be different?”

232 “Your water company is a monopoly. Your city is in the middle of a desert. The only
233 thing worse than communism is monopolies.”

234 Victor’s smooth, flawless, translation came to a halt. When he composed himself the

235 words out of his mouth didn't include anything sounding like 'communism' or 'monopoly.' This
236 time it was him saving our asses. The rest of the meeting had little substance. It was concluded
237 with a request for us to produce a proposal for the *Cost Approach* appraisal.

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239 That night we had dinner with Professor Ferreira and Architect Benitez. It was pleasant
240 enough. Architect Benitez still wanted to know what the value of his hybrid Ferrari/Toyota
241 would be, and it wasn't clear if Professor Ferreira even understood my presentation.

242 The following morning we gave our class a final exam. Architect Benitez was at the top
243 of the class, damned by faint praise. Professor Ferreira like most of the other students missed
244 most of what I was trying to relay to them. There didn't seem much point to flunk them, and I
245 didn't.

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247 Our last afternoon was spent at a flea market buying presents to take home. The flea
248 market was in a central square with booths selling clothing, crafts, jewelry, souvenirs, vegetables
249 and food. Off to the side of the flea market was a little antique shop that somehow we had
250 missed before. Inside, behind a china closet, I found a large rough tempera painting on sheepskin
251 that had been mounted on a board.

252 The Quechuan proprietress proclaimed, "*Es egipcio — mira, las pirámides — Es muy*
253 *valiosa!*"

254 I bought it for \$60, probably making her day. In the border, incorporated into the design
255 was the writing "*D'apres Teotihuacan, Diego Rivera,*" and that made my day. It was Mexican
256 not Egyptian.

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The deal to sell the water company fell through shortly after we left, and the water company is still state owned. Nothing came of my appraisal proposal. The standoff at the Japanese embassy came to an end with a military intervention. I went back to appraising *tchotchkes* on Miami Beach. The still un-authenticated Rivera painting hangs in Deb's and my house as a reminder of the adventure.

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THE END